New ground for growth

ANNUAL REPORT 1999

DOMCO TARKETT INC.

[Profile]

Domco Tarkett Inc. is the second largest North American manufacturer of hard surface floor covering. The Corporation holds a market share of more than 20% in the resilient flooring segment and of almost 10% in the hardwood flooring segment.

With nine manufacturing facilities and extensive distribution networks serving all regions of Canada and the United States, Domco Tarkett offers one of the most comprehensive, high quality product lines in the flooring industry. Its vinyl sheet and tile floor coverings, laminated products, hardwood flooring, wall base and accessories are sold to commercial and residential users under the Azrock, Domco, Nafco, Tarkett and Harris Tarkett brands.

Domco Tarkett places high value on the expertise and dedication of its 2,300 employees. The quality of its people is key to the Corporation's continued growth and its ability to provide superior products and services at competitive prices.

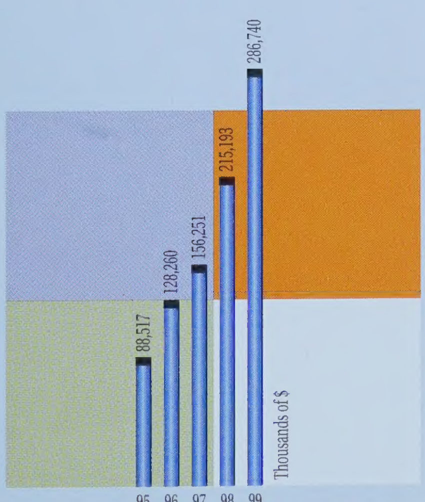
Domco Tarkett operates plants in Farnham, Quebec, in Florence, Alabama, in Houston, Texas, in Vails Gate, New York State, in Johnson City, Tennessee, in Montpelier, Indiana, in Tillar, Arkansas and in Stuart, Virginia. Its head office is located in Farnham and its sales and marketing administrative centre is based in Whitehall, Pennsylvania.

DOMCO TARKETT INC.

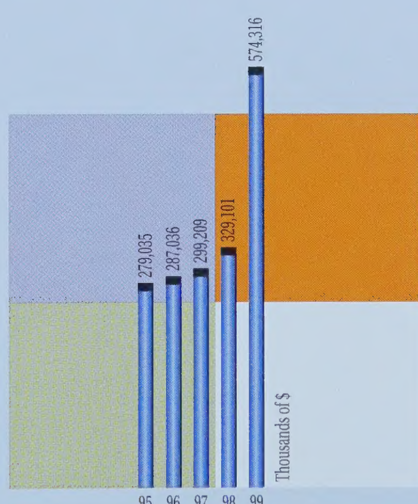
[Financial Highlights]

(Thousands of dollars, except per share amounts)
December 31

	1999	1998	1997	1996	1995
Revenues	$491,452	$350,798	$350,321	$328,422	$316,633
Gross margin	156,641	122,592	126,723	128,136	127,818
Loss resulting from lawsuit	-	(2,404)	-	-	-
Restructuring costs	-	-	-	-	(2,427)
Income before taxes	20,835	17,737	28,499	28,065	25,245
Net income	18,388	14,725	20,362	19,573	15,828
Basic earnings per share	0.83	0.82	1.27	1.39	1.15
Fully diluted earnings per share	0.83	0.80	1.09	1.21	1.06
Working capital	157,142	87,736	53,714	53,313	61,956
Total assets	574,316	329,101	299,209	287,036	279,305
Total Long-term debt	178,789	65,646	58,876	62,618	97,457
Shareholders' equity	286,740	215,193	156,251	128,260	88,517
Book value per share	11.29	10.91	9.61	8.06	6.44
Common share dividend	$0.275	$0.275	$0.275	$0.275	$0.275



Shareholder's equity



Total assets

[1999 Highlights]

Our Corporation

- Domco Inc. acquired **Tarkett North America Holding, Inc ("Tarkett NA")**, and changed its name to Domco Tarkett Inc. on July 30, 1999.

Our Products

- Domco created the *Natural Wonders* collection.
- The Cerama™ and Rustic® lines were created by Domco.
- Three new products were added to the Nafco line.
- Azrock's Series 8000® is now offered in 23 colours.
- Tarkett created a new line of commercial vinyl tiles.
- Harris-Tarkett launched two new products: the Artisan Plank™ and the Signature Plus™ strip.

Our Facilities

- Farnham, Quebec: Sheet flooring production is consolidated there. The plant and warehouse were expanded by about 10,700 square meters.
- Florence, Alabama: Started manufacturing seven new products.
- Houston, Texas: Increased its warehouse and distribution capabilities with an expanded facility, more than doubling storage capacity at its distribution centre.
- Montpelier, Indiana: Opening of a new, larger and more functional plant.
- Stuart, Virginia: A fourth production line was initiated.
- Tillar, Arkansas: Started producing unfinished solid wood strips.

[An interview with Robert W. Van Buren]

At the close of a year marked by changes that should have a profound impact on the Corporation he heads, Mr. Robert W. Van Buren, Vice-Chairman of the Board and Chief Executive Officer of Domco Tarkett Inc., agreed to take stock of the situation.

Mr. Van Buren, could you sum up the year for us in a few brief words?

Well, if I truly had to sum up in a few words a year as intense as the one we've just lived through, I would simply say that 1999 was the year in which Domco acquired Tarkett North America Holding, Inc. and emphasized the transaction by changing our corporate name to Domco Tarkett. I would add that we paid a fair price and that the final amount will be determined in keeping with the profits this acquisition will generate for our shareholders. But that doesn't really do justice to the strategic scope of our 1999 undertakings.

"It is likely that, within a few years, the last eighteen months will come to be considered as one of the most crucial periods in the history of our Corporation."

The year must be considered in perspective. It marked the completion of a process we undertook over 10 years ago. Indeed, it is from this viewpoint that we must evaluate the year. Since the start of the 1990s, we have worked tirelessly on three fronts simultaneously.

First, we systematically expanded our product range, in order to offer an attractive line to the market and our distribution networks and, as a result, reinforce our market position. That is why we acquired Azrock in 1991 and Nafco in 1994. For the same reason, we are continually developing new products, both in our own laboratories and in cooperation with the R&D team of our controlling shareholder, Tarkett Sommer.

Second, based on the strength of this expanded product line, we have extended and reinforced our distribution network. In Canada, we gradually expanded the network of our Domcor Division, making it our exclusive distributor in the country. In the United States, we recruited distributors in new territories and developed the concept of master distributors.

Third, we reinforced our production system considerably. Over the past five years, we have invested almost $85 million to make our plants one of the most profitable in the industry.

The year 1999 crowns this decade of achievements. Despite this continuity, it is likely that, within a few years, the last eighteen months will come to be considered as one of the most crucial periods in the history of our Corporation.

What do you mean by that?

I consider this year to be a crucial one in three respects. First, size; second, efficiency; third, marketing.

Let's start by size...

Yes. That's the simplest and most immediate aspect. Overnight, as of July 31, 1999, we doubled our size. Domco's sales were approximately $350 million in 1998, while Tarkett's and Harris-Tarkett's combined sales were similar. On an annual basis, our sales now exceed $700 million. In 1999, with only five months of consolidated results, sales are close to $0.5 billion.

But is size alone a valid objective?

Of course not. Size has no value of and in itself. But size is a pre-requisite for the other advantages I mentioned earlier: efficiency and more effective marketing.

"IN 1999, WITH ONLY FIVE MONTHS OF CONSOLIDATED RESULTS, SALES ARE CLOSE TO $0.5 BILLION."

SO, LET'S TALK EFFICIENCY...

OK. The integration of the two firms' operations provides us with a remarkable potential for synergy and savings. We now obtain better prices for our raw materials; we have centralized sheet production in Farnham, one of the most efficient plants in its industry in North America; and we re-structured other aspects of our manufacturing operations. All in all, we will be able to increase our combined operating profit by $12 million or more per year.

ALL THOSE WHO MAKE ACQUISITIONS SAY SOMETHING ALONG THOSE LINES.

That's true. And I know that it's never easy to merge two companies, particularly when they were competitors as long as Tarkett and Domco have been. You can't get around that. 1999 brought a succession of challenges for everyone at Domco Tarkett – before and after the transaction. But we have an advantage that few companies enjoy at the time of large transactions: we are thoroughly familiar with the company we acquired. I mean, we really know that company. Don't forget that, as in the case of several of my colleagues in the Domco management team, I worked for GAF, Tarkett's predecessor, for several years. As a result, we were in a particularly good position to plan and undertake this integration. Like all integrations, this one was difficult, but the worst is behind us. We now have an efficient production structure – and we will continue to improve it.

"THE INTEGRATION OF THE TWO FIRMS' OPERATIONS PROVIDES US WITH A REMARKABLE POTENTIAL FOR SYNERGY AND SAVINGS."

WHAT CAN YOU SAY ABOUT THIS EFFICIENCY?

I would say that most of our plants are among the most efficient in their reference group in North America. You know, we have invested a great deal of effort and money in our plants over the last few years. We've modernized them, revised our raw materials formulations, and optimized our processes. Our Farnham and Houston plants are among the most efficient – if not the most efficient – in the industry. The Florence plant is following on their heels. Vails Gate, which experienced certain difficulties, has improved considerably in 1999. We have an action plan for reducing its costs in 2000. And, based on our track record, it's clear that we know how to improve the performances of our plants. I must add that Harris-Tarkett improved its productivity in a spectacular manner in 1999. After almost ten years of losses, this production unit generated substantial operating profits in 1999. So production is under control. Over the next year or so, anything that has not yet been optimized will be.

WHICH BRINGS US TO THE THIRD POINT...

Exactly. Our marketing approach.

YES. IS YOUR APPROACH TO THE MARKET RELATED TO YOUR SIZE?

Yes, but only to a certain extent. We've integrated everything that could benefit from economies of scale, such as the manufacturing of resilient products and corporate functions. But everything that relates to marketing remains decentralized. Tarkett remains an independent subsidiary, but from now on it is essentially a marketing and sales organization. Domco and Tarkett shall keep their respective design, marketing and sales teams, as well as their respective distribution networks. Having said this,

Domco Tarkett is now a solid second in the North American hard surface flooring industry. Please note that I'm referring to the hard surface industry and not just the resilient floor-covering segment.

I IMAGINE THAT YOU'RE ALLUDING TO THE FACT THAT HARDWOOD FLOORING IS NOW INCLUDED IN YOUR PRODUCT LINE.

Among other things, yes. It opens exciting opportunities for us – especially since consumers appreciate the look of natural materials like wood. But there's more than that. We will adapt our marketing practices to benefit from present market trends.

"OUR PRODUCTS SHOULD NO LONGER BE SOLD ONLY AS RESILIENT FLOOR COVERINGS. OUR PRODUCTS ARE NOW CONSIDERED CREDIBLE SUBSTITUTES FOR MOST NATURAL MATERIALS."

WHAT DO YOU HAVE IN MIND?

Traditionally, our industry has been segmented according to manufacturing techniques and the raw materials used in the process: resilient floor coverings, hardwood, carpeting, ceramic, etc. This segmentation, however, does not reflect the customers' concerns. Customers select floor coverings based on their attributes, not their components. They don't want to know how the floor is made, they're interested in the end result: the appearance. In both the residential and commercial sectors, decisions are based on looks, durability, maintenance ease, and the cost of the finished floor.

Competition does not come solely from sheets and tiles manufactured by our competitors. Competition comes from all floor coverings, particularly hard surface floor coverings.

What I want to stress is that our products should no longer be sold only as resilient floor coverings. Our technology and our products have improved greatly in recent years. Our products are now considered credible substitutes for most natural materials. Our best products must be compared to these materials – not to traditional resilient floor coverings. And they must be sold where those materials are found – not with traditional resilient products.

SO, YOU WILL ENSURE THAT YOUR PRODUCTS ARE LOCATED IN NON TRADITIONAL LOCATIONS.

That's right. Ceramic patterns will be displayed in the ceramic departments in stores, wood patterns with wood, and so on. We've already started this on an experimental basis and the reception has been very encouraging.

However, our concern for the consumer must go beyond mere displays.

WHAT DO YOU MEAN?

We have to see ourselves as more than manufacturers. Let me explain. Manufacturing is still our basic trade. We will continue to be obsessed with the efficiency of our plants and our processes. That's a bit of a caricature, but we must understand that our involvement does not stop at the loading dock when the trailer doors are closed. We must sell our product to the consumer. We must make a difference in the store, in the way we display our products. That requires a lot more than merely relocating our products in a store.

SHOULD WE EXPECT OTHER ACQUISITIONS IN OTHER SEGMENTS?

Not in the foreseeable future, unless we see an opportunity we just can't refuse.

There's no shortage of challenges for 2000!

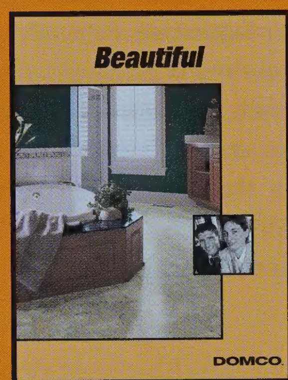
No, but I have every reason to be optimistic. The hardest part of the integration is behind us and our challenge this year will be development. The situation remains favourable. The North American economy continues to do well. Growth is still the order of the day and, to date, the American and Canadian monetary authorities have managed their anti-inflation policies very carefully.

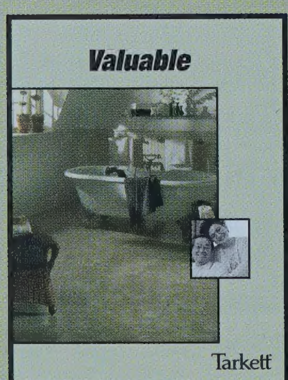
For our part, we must excel in everything we do. And we've got what it takes. We have an expanded product line, which now includes Tarkett laminated floor coverings and Harris Tarkett wood flooring. With names such as Azrock, Domco, Nafco, Tarkett and Harris Tarkett, we have a portfolio of brands that are well known and enjoy a solid reputation, with both the distribution networks and consumers. We have an efficient production tool, with potential for even greater efficiency.

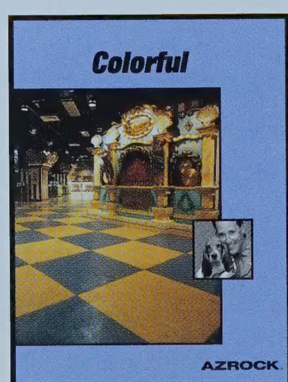
This is an exciting challenge for our new President and Chief Operating Officer, Ulf Mattsson. Ulf brings to us a varied experience, acquired with the Tarkett Group in Europe and America. His track record is impressive, most notably with respect to the results he attained with Harris-Tarkett, where he was President. I know he can count on the support of all Domco Tarkett employees.

Before concluding this interview, I would like to thank all the employees of Domco Tarkett, as well as all our partners: distributors, retailers and suppliers. 1999 was a demanding year for all of us and everyone did a phenomenal job.

Domco Tarkett products : aesthetic quality, easy maintenance and durability.





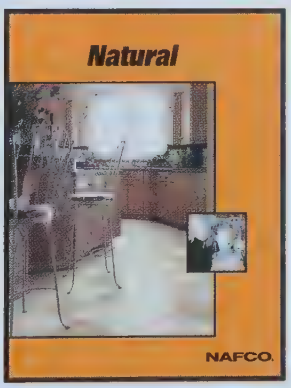


On July 30, 1999, Domco Inc. completed the acquisition of Tarkett NA. and the corporation was renamed Domco Tarkett Inc.

Most of 1999 was spent preparing and completing this transaction, and then restructuring the operations of both corporations in order to realize the considerable potential for synergy.

Following this restructuring, Domco and Tarkett keep their respective product lines and brands, design teams, sales forces and distribution networks. Thus the Corporation will fully benefit from the substantial accumulated equity in brands and networks. However, production of resilient flooring was integrated into one four-plant system, producing for the Domco, Azrock, Nafco and Tarkett brands.

Moreover, during the course of 1999, Domco Tarkett changed the market positioning of certain resilient products. This positioning launched at the start of 2000 results in the grouping of existing and new products into new collections, organized according to the natural materials they emulate.

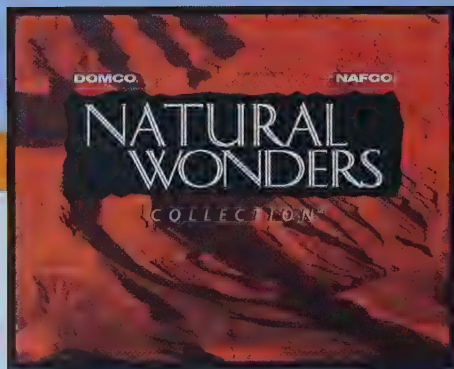


Products: Choice, Look and Quality

Domco Tarkett has one of the largest floor covering product lines for the residential and commercial markets: sheet, tile and laminated products, hardwood flooring, wall base and accessories. Domco Tarkett products combine aesthetic quality, inexpensive installation, easy maintenance and durability.

In 1999, Domco Tarkett adapted certain marketing programs according to the product features that are of interest to customers, whether residential or commercial: the look, functionality and cost of the finished floor.

Cerama™



A NEW COLLECTION FOR THE RESIDENTIAL MARKET

As a result of research and development undertaken by Domco Tarkett and its controlling shareholder, Tarkett Sommer, the Corporation's line of vinyl and laminated products is constantly being enriched with new textures and new patterns that are closer than ever to natural materials such as wood, slate, stone, terra-cotta and so on. These products are generally easier to maintain than the natural surfaces they emulate. Moreover, since they are also easier to install, their final cost is extremely competitive.

In a similar manner, Harris-Tarkett, a subsidiary of Domco Tarkett which manufactures hardwood floor coverings, is continuing its research and development programs, for both products and processes. For this purpose, it uses leading edge manufacturing techniques to develop products which stand out as a result of their quality, consistency and easy installation.

These characteristics are what consumers are looking for – whether they buy vinyl flooring or natural surfaces. Consumers look not for a specific material, but for a combination of attributes in terms of look, cost, ease of installation and care. Thus, retailers will carry Domco and Tarkett resilient products in the departments where the consumers look for them. Ceramic look-alikes will be found in the ceramic flooring department, wood look-alikes with the hardwood floorings, and so on. In this way, the new laminated and vinyl products will cease to be viewed as competing with traditional vinyl floor coverings. They will be purchased primarily for their functionality and economy.

Three operating units manage and market Domco Tarkett brands: Domco, Tarkett and Harris-Tarkett.

Elements™

Crackled Porcelain™

Rustic®

CERAMA™ — RUSTIC® — ELEMENTS™ CRACKLED PORCELAIN™ — ANTIQUE PLANK™

◇ *Domco*

Domco offers its products under three brand names: Domco, Azrock and Nafco.

A new collection for the residential market

In 1999, the Domco division created the *Natural Wonders* collection, which includes both Domco and Nafco products. The products in the *Natural Wonders* collection look and feel like the natural floor coverings they emulate and are more functional than the real products. The collection includes nine products. Among them, let's mention two lines of ceramic look-alike products created by Domco. Manufactured using a new process that combines mechanical and chemical embossing, these sheet floor coverings, developed by the Domco Tarkett R & D team, have a texture which is much closer to that of real ceramic than that of the previous generations of products.

Antique Plank™

Three new Nafco products have been introduced in the new collection: Elements™, Crackled Porcelain™ and Antique Plank™. The first one is a luxury tile that resembles a terra-cotta tile; the second one is a tile with a "crackled" paint finish that evokes a traditional rural décor; and, the third one reproduces the rustic, weathered look of old barn wood. Three existing Nafco products complete the collection: two slate substitutes and another rustic wood look-alike.

An explosion of colours for the commercial market

Series 8000®

Linosom™

VCT

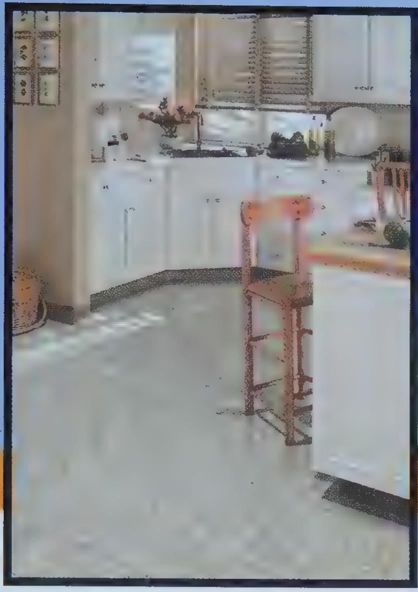
An explosion of colours for the commercial market

The Azrock products meet the particularly demanding standards of the commercial market. Designed to stand up to the heavy traffic found in stores, shopping malls, hospitals, offices and other institutions, they are also attractive and easy to maintain.

The Azrock integrated commercial floor covering system includes: standard and premium vinyl composition tiles (VCT); commercial inlaid vinyl sheets; solid vinyl tile; luxury vinyl tile; homogenous PVC coverings; linoleum; wall base; adhesives and floor covering maintenance products.

In 1999, Domco recoloured its Series 8000® inlaid sheet floor coverings. Available in 23 colours, the latter has a non-directional pattern, allowing the floor covering sheets to be matched perfectly, which is of particular interest for large floor areas. The seams can be sealed chemically or thermally. The use of the inlaying technology and the Pressure-Temp® process ensures that the colour remains homogenous across the entire floor surface, regardless of variations in traffic density.

Azrock also added 19 new colours to the Linosom™ line, bringing the total to 40. It is a natural floor covering, linoleum, made of cork, wood, linseed oil and jute. It creates a warm atmosphere and is exceptionally durable. As a result of its anti-bacterial and anti-scuff properties, it is an ideal product for schools and hospitals.


Style Brite®

IN THE RESIDENTIAL MARKET, *NATURE'S TOUCH*™ EXPANDS THE SELECTION AVAILABLE TO CUSTOMERS.


Naturelle™

Tarkett

As in the case of Domco, Tarkett markets sheet and tile products for residential and commercial markets. Tarkett also markets laminated floor coverings for the residential and commercial markets. All of these products are sold under the Tarkett brand name in the United States and Canada.

In the residential market, Nature's Touch™ *expands the selection available to customers.*

In 1999, the Domco Tarkett research and development department developed the *Nature's Touch*™ process, which uses intense pressure and heat to emboss the surface of a floor covering in order to produce the desired texture and effect, such as the grout between tiles or the irregular surface of stone. In response to increasing consumer demand for natural-looking floor coverings, Tarkett has rejuvenated its lines of residential and commercial sheet and tile products.

Tarkett used the process to modify certain existing lines of products and to add a new one. It uses this new process to make the look of certain product lines with patterns that emulate marble, ceramic and stone, such as the new Yosemite™, even more realistic. Tarkett also added to its existing lines new patterns benefiting from the process. As a result, Tarkett residential sheet products look more similar than ever to materials such as hand-made brick, kiln-fired bisque, slate or stoneware tiles, limestone, marble or ceramic. The *Nature's Touch*™ process gives these floor coverings a weathered look that adds to the warmth of these materials. Tarkett is giving mid-range products features that were only available with luxury products in the past.

This new process has also been used for luxury tiles in Tarkett's Fashioncraft® line. It was initially used with four patterns, which respectively imitate weathered stone, marble tile, traditional marble and wood flooring. Offering textures that are more realistic than ever, this line is solidly positioned at the top of the residential product line.

Artisan Plank™

HARRIS-TARKETT LAUNCHED TWO NEW PRODUCTS IN 1999.

Unprecedented flexibility for the commercial market

Tarkett expanded its commercial product lines so as to offer architects and designers unprecedented flexibility.

Tarkett redesigned its Granit® sheet covering line, doubling the number of colours available, to bring them to 24, eight of which are available with the Acoustiflor® option. Used to a large extent in the health care sector, Granit® is, since mid-1998, the fourth line of commercial sheet floor coverings, for which the colour palette has been completely redefined.

Tarkett also created a new line of commercial vinyl tiles: Duet™. Combining a mottled look with the Artflecs® multi-shade surface coating, this line of tiles offers a harmonious and supple combination of colours in shades that go well with other Tarkett commercial products – enabling users to create their own floor designs.

Harris-Tarkett

Harris-Tarkett manufactures and markets the most complete line of hardwood floor coverings, particularly prefinished and unfinished solid strip flooring; prefinished and unfinished engineered plank and strip flooring; prefinished long strip flooring; prefinished solid parquet and unfinished specialty parquets. Harris-Tarkett also manufactures and markets transition products and mouldings that complement the floorings. These products are used primarily in the residential sector.

Harris-Tarkett launched two new products in 1999.

The Artisan Plank™ is a prefinished manufactured engineered plank. It measures five inches wide (approximately 13 cm) and has a bevelled edge, much like old-fashioned flooring. Finished with Alumide™, it retains the original colour of the wood and has more character than most prefinished products, with a natural variety of colours, knots and graining. It is available in a total of six species: red oak, maple, walnut, ash, beech and cherry.

Signature Plus™

The Signature Plus™ strip is a premium, prefinished solid strip designed to rival traditional sand-and-finish floors – a first in the industry. Installers will enjoy working with this product, which is easier to install than most other strips. It is offered in five species, which were available only with custom installations prior to this time: clear red oak, clear white oak, ash, cherry and walnut.

Distributors and retailers: partners

Domco, Tarkett and Harris-Tarkett each have their own distribution network.

Domco has established a network of 53 distributors, including 14 master distributors, that effectively covers the entire continental United States. These distributors in turn do business with retailers operating in the territory assigned to them under contract. In 1999, Domco strengthened its partnership with its master distributors so as to link their success more closely with that of the division.

In the context of the new positioning of its natural-looking, natural-feeling products, Domco designed display units to be used exclusively for marketing these products. Each of these display units will be dedicated to a specific material. As a result, in 1999, Domco tested a display unit containing only Nafco wood look-alike tiles and planks in the hardwood flooring sections of retail stores. Placed next to displays of real wood flooring, these new display units can hold up to 30 different products and emphasize the specific advantages of the Nafco options over real wood flooring: installation costs 25% lower, double the resistance to wear, maintenance ease, 20-year warranty, better dampening of sound. These new display units have been tested in approximately 150 stores, with promising results. They were enthusiastically welcomed by distributors. Similar tests are underway with ceramic look-alike products.

Domco intensified its efforts to market to national accounts – store chains and purchase groups. It signed new agreements with two important purchasing groups in the United States that represent a total of 1,800 sales outlets. Domco products are now accredited with the merchant members of these groups.

The Azrock brand is now using new marketing tools which, while presenting more products and colours than traditional sample folders, are also lighter and more portable. For example, a new digital folder presents the Azrock integrated commercial floor covering system by product line. Instead of the traditional samples, it relies on a new technology, a digital scanning system that faithfully reproduces the colours, patterns, and textures of the floor coverings. This system is also more economical than the traditional system of actual product swatching.

Domcor, exclusive Canadian distributor

In Canada, Domco, Nafco and Azrock products are distributed exclusively by Domcor, another division of Domco Tarkett. Domcor attained this exclusive status at the start of 1999.

In addition to Domco, Nafco, and Azrock products, Domcor also offers retailers Harris Tarkett products and a complete line of floor coverings manufactured by other companies, such as Aquaflor®, a specialized product intended for wet rooms. Agreements signed with Beaulieu of Canada and Queen Carpet allow Domcor to market its collection of Farnham Mills® carpets while minimizing inventory. As a result, Domco is able to offer retailers a complete line of floor coverings.

In 1999, based on the strength achieved through its new Canadian exclusiveness, Domcor centralized part of its customer service department in Farnham, in order to offer a standardized, more efficient telephone order service. Customer services offices remain in operation in Toronto, Winnipeg and Edmonton. Domcor also implemented a new centralized management information system which allows it to optimize stock management. Domcor did, however, maintain its network of warehouses throughout Canada, from Sainte-Foy (Quebec) to Richmond (B.C.).

Tarkett distributes its products in the United States and Canada through a network of 35 distributors. Tarkett is very active in the American market where its brand awareness and its in-store presence have been developed over a lengthy history. Approximately 13,000 display units, most of which are located in retail establishments, offer Tarkett sheet, tile and related products to consumers.

In 1999, Tarkett concentrated on ensuring the successful transition of its distribution network as the subsidiary reorganized and was integrated into Domco Tarkett. Tarkett also had to adapt to the bankruptcy of one of its major distributors. The territory served by that distributor was re-assigned to other Tarkett distributors.

Harris-Tarkett sells its products in the United States and Canada through 20 independent distributors, which account for over 112 establishments. These distributors re-sell Harris Tarkett products to more than 10,000 retailers specializing in floor coverings, hardware and materials, construction and renovation firms, hardwood floor installers, architects and interior designers. Harris Tarkett products are also distributed by the Lowe's chain of renovation stores.

In 1999, Domcor started to distribute Harris Tarkett products in Canada.

Farnham warehouse

One of the most efficient manufacturers in the industry

In 1999, Domco Tarkett re-organized its production in order to achieve the full potential for efficiency resulting from the integration of Domco and Tarkett NA. While Domco and Tarkett remain completely independent in terms of product design, marketing, and distribution, they have been fully integrated in terms of manufacturing and research and development.

The Farnham, Quebec plant is now responsible for all sheet flooring production. The plant and warehouse were expanded by about 10,700 square meters and new equipment was added, at a total cost of approximately $18 million. The Farnham production and storage facilities now occupy a total area of approximately 36,200 square meters. Additional expansion is planned for 2001. The Tarkett plant in Whitehall, Pennsylvania, no longer produces sheets. This production transfer was planned and executed carefully. In addition to this transfer, the research and development team reviewed the process and ingredient formulation in order to integrate supply of raw materials. This grouping resulted in important savings.

The sheet production costs at Farnham are amongst the lowest in the industry. From 1995 to 1999, productivity, expressed in terms of square meters per person-hour, increased by 34%.

In connection with this grouping, the Company and its Farnham employees negociated the extension of their collective agreement until 2005.

Costs at the Houston plant are also among the lowest in the industry. From 1995 to 1999, productivity increased by 36%. In 1999, the Corporation focussed, successfully, on productivity and on the reduction of the cost of raw materials.

The Florence plant continued with the Century Project in 1999. This automation, productivity improvement and product quality improvement project has resulted in significant savings since its introduction in 1996. This plant has started to manufacture Tarkett vinyl tiles, which Tarkett had had manufactured by a sub-contractor previously. In cooperation with the research and development team, the plant has launched seven new products, including a line of thermoplastic rubber wall base. In an effort to eliminate negative impacts on the environment, all the heavy metals have been eliminated from the raw material used at the Florence plant.

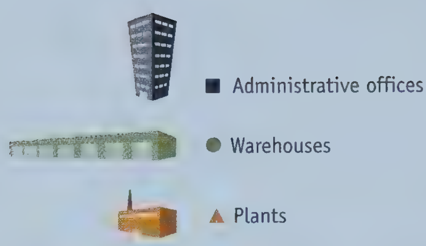
Productivity increased by up to 40% between the start of 1998 and the end of 1999.

The Vails Gate plant, which produces commercial VCT tiles, experienced certain difficulties in 1999. As a result of the efforts of all of the plant's managers and employees, production at Vails Gate is now first rate. The priority for the year 2000 is to reduce costs in order to make the plant as efficient as the other Domco Tarkett sheet and tile plants. The focus will be on reducing the costs of raw materials and optimizing manufacturing processes.

Harris-Tarkett production is ensured by five plants. In recent years, Harris-Tarkett has managed to increase the productivity of its plants significantly, particularly through the implementation of a continuous improvement program. Processes are constantly re-assessed in order to improve yield and productivity. According to the plants, productivity increased by up to 40% between the start of 1998 and the end of 1999.

Harris-Tarkett closed its old facility in Montpelier, Indiana, and opened a new, larger and more functional plant. The production capacity for plywood quadrupled. The Stuart, Virginia, plant, acquired in 1998, has been fully integrated. As a result of increased demand for its products, a second work shift was required and a fourth production line was initiated.

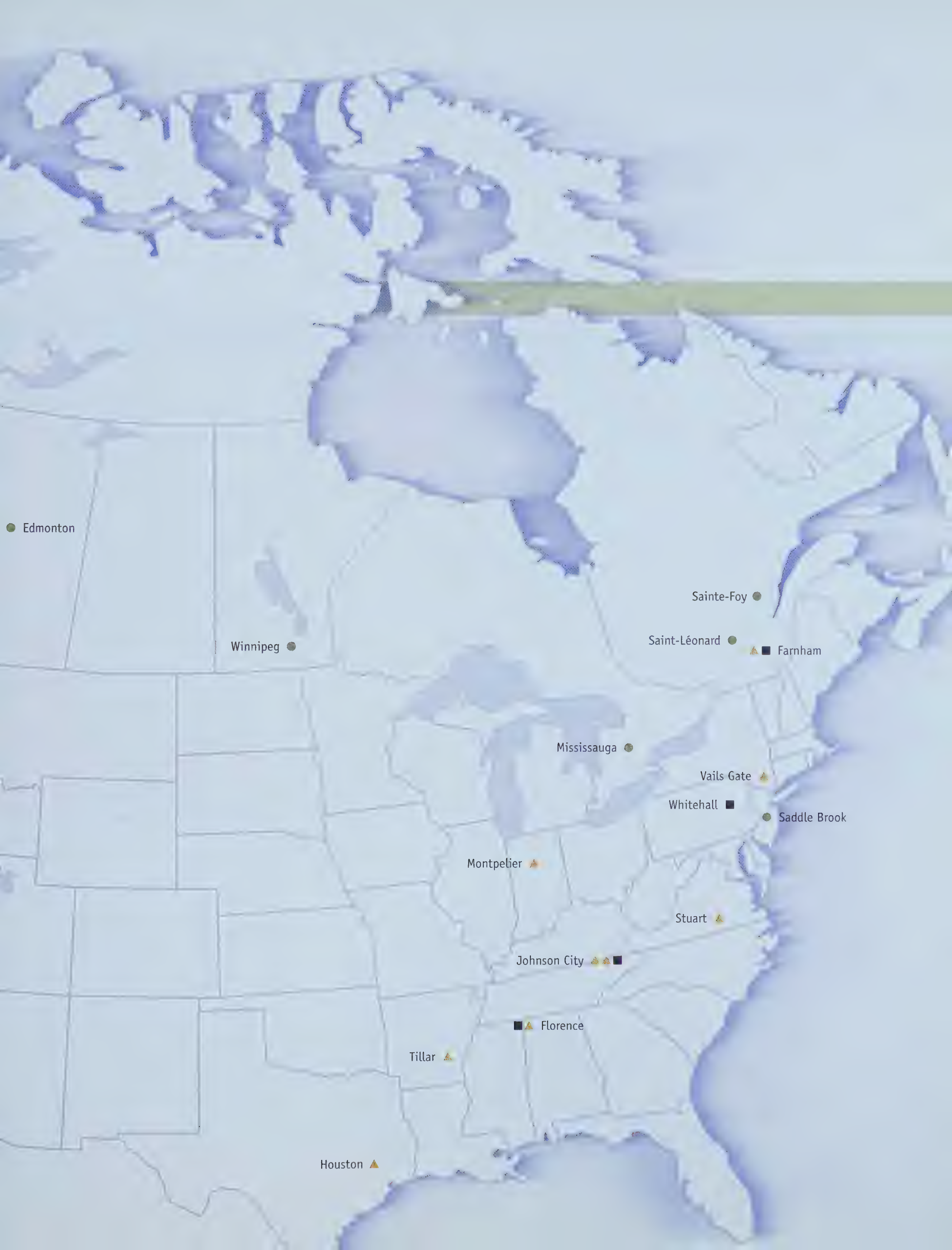
Harris-Tarkett restructured production at its plant in Tillar, Arkansas. That plant no longer manufactures solid wood planks and now produces unfinished solid wood strips. Plank production has been transferred to a Virginia-based company, under an agreement that gives Harris-Tarkett access to a vast supply of high quality raw materials.



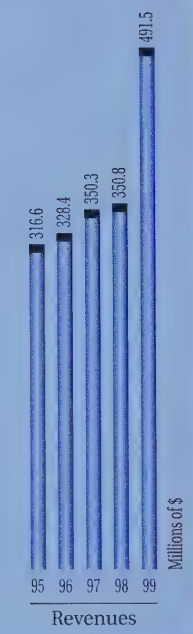
DOMCO TARKETT INC. PLANTS

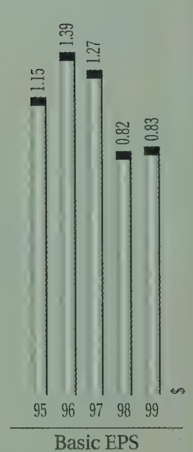
(as at December 31, 1999)

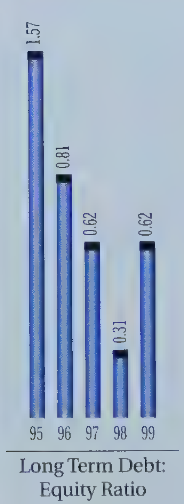
Site	Products, brands	Number of Employees	Area (m²)
Farnham, Quebec	Resilient sheets Brands: Domco, Tarkett, Azrock	304	36,200
Florence, Alabama	Luxury vinyl tiles and planks, vinyl and rubber wall base, Brands: Nafco, Azrock, Tarkett	282	32,600
Houston, Texas	Commercial vinyl composition tiles (VCT) Brand: Azrock	271	23,500
Vails Gate, New York	Commercial vinyl composition tiles (VCT) Brand: Tarkett	167	20,438
Johnson City, Tennessee	Pre-finished, full-length strips, pre-finished, full-length planks, pre-finished, solid wood planks Brand: Harris Tarkett	306	28,000
Johnson City, Tennessee	Unfinished, inlaid flooring Brand: Harris Tarkett	29	5,800
Montpelier, Indiana	Veneer and plywood: intermediate product delivered to Johnson City	54	9,270
Tillar, Arkansas	Unfinished solid strip Brand: Harris Tarkett	35	8,000
Stuart, Virginia	Solid strips Brand: Stuart Flooring	148	10,500


Edmonton
Winnipeg
Sainte-Foy
Saint-Léonard
Farnham
Mississauga
Vails Gate
Whitehall
Saddle Brook
Montpelier
Stuart
Johnson City
Florence
Tillar
Houston

The 1999 fiscal year was marked by the acquisition of Tarkett NA.







Note: Except where indicated, all amounts are expressed in Canadian dollars.

The 1999 fiscal year was marked by the acquisition of Tarkett NA.

The Corporation acquired Tarkett NA from Tarkett Sommer AB, who is also the indirect controlling shareholder of the Corporation. The terms of the transaction and of its financing were submitted to an Independent Committee of the Board of Directors, who recommended its acceptance to the Board. The Board approved the transaction and recommended its acceptance to the Corporation's non-controlling shareholders, who agreed to the transaction and its financing during a special general meeting held July 13, 1999. The transaction was closed July 30, 1999. Tarkett NA's financial statements were consolidated as of July 31, 1999.

The Corporation acquired all of Tarkett NA's shares for a consideration of $80.2 million, including acquisition costs of $4.9 million. The price could be adjusted upward if Domco Tarkett achieves predetermined objectives in terms of earnings before interest, tax, depreciation and amortization (EBITDA) as defined in the Share Purchase Agreement for 2000 to 2003. The upward adjustment is limited to $20 million a year, and cannot exceed a total amount of $40 million during the four-year period. Subject to these limits, the adjustment will represent 50% of the Domco Tarkett EBITDA in excess of the predetermined (EBITDA) threshold values. These threshold values are:

Fiscal year ending December 31, 2000: $104 million;

Fiscal year ending December 31, 2001: $107 million;

Fiscal year ending December 31, 2002: $111 million;

Fiscal year ending December 31, 2003: $115 million.

Operating Results

Revenues from the 1999 fiscal year reached $491.5 million, a significant increase compared to $350.8 million in 1998. This increase is due mainly to the consolidation of Tarkett NA sales for the last five months of the year.

Excluding the impact of the acquisition, the Corporation's sales grew by nearly 8% in 1999. This progress was supported by sales to Tarkett Inc. ("Tarkett") before the acquisition as per the supply agreement that was in effect from March 1999 until the acquisition date.

The Corporation's line of business includes manufacturing and distribution activities, which distribution activities are done exclusively in Canada through Domcor. Manufacturing operations include the resilient floor covering products segment and the hardwood floor covering products segment as well as the supply of related products. The distribution operations include the sale of products manufactured by the Corporation, as well as of those manufactured by third parties.

IN 1999, DOMCO TARKETT RECORDED 81.1% OF ITS SALES IN THE UNITED STATES, COMPARED TO 74.6% ONE YEAR EARLIER.

Sales from resilient floor covering and related products reached $390.1 million in 1999, an increase of 24.6% compared to the previous year's sales. As for consolidated sales, this increase is due to the acquisition of Tarkett NA and to sales to Tarkett before the acquisition.

Hardwood floor covering products sales were $62.4 million from August to December 1999. The Corporation did not operate in this sector in 1998. On an annual basis, the hardwood floor covering products division posted an increase in sales of 15% in 1999 over the preceding year.

Domcor posted sales of $74.7 million in 1999, an 8.3% increase over the previous year. This increase was a result of the strong sales growth for laminated flooring, as well as the integration of sales from two independent distributors.

In 1999, Domco Tarkett recorded 81.1% of its sales in the United States, compared to 74.6% one year earlier.

Gross margin was $156.6 million, or 31.9% of revenues, compared to $122.6 million or 34.9% of revenues the previous year. The decrease in the gross margin percentage is, for the most part, the result of the Tarkett NA acquisition. Although the gross margin attained by Tarkett NA for resilient floor covering segment is increasing, it is still slightly lower than Domco's. The margin achieved in the hardwood floor covering segment is slightly lower than the margin generally observed in the resilient floor covering segment; however, administrative, distribution and selling expenses are lower. Certain temporary factors had a slight effect on the gross margin. Sales made to Tarkett before the acquisition, as per the supply agreement, had a lower gross margin due to the fact that the Corporation did not have to assume the selling and marketing expenses. Also, during part of the year, the price of vinyl composition tiles on the commercial market faced pressure from the competition, as was the case for the price of high-end residential sheet vinyl.

Administrative, distribution and selling expenses increased from $81.3 million in 1998 to $105.4 million in 1999. As a percentage of sales, these expenses decreased from 23.2% in 1998 to 21.5% in 1999.

Distribution expenses incurred by Domcor increased, reflecting the integration in the first quarter of the business previously done by two independent distributors. However, warehousing costs at the Houston plant decreased following the construction of a new and more efficient distribution facility in the course of 1999 and the rationalization of transportation costs.

EBITDA was $51.2 million in 1999, compared to $41.3 million the previous year before the loss resulting from a lawsuit.

Depreciation was $15.5 million, compared to $9.9 million the year before. This increase is due to the acquisition of Tarkett NA, and also to the exceptionally high level of investments carried out in 1999, particularly for the Farnham plant expansion project.

Segment income from operations was $36.2 million, compared to $32.3 million, up 11.8% from 1998. This increase reflects an $8.2 million contribution from the hardwood floor covering segment acquired during the year. The resilient floor covering segment posted income from operations of $29.2 million compared to $31.5 million the year before. Domcor posted a loss from operations of $1.3 million due mainly to costs related to the transfer of operations from one independent distributor; as well as costs related to the new management information system and of a new customer service structure—notably employee training and additional transportation costs.

Interest expense was $8.4 million, compared to $5.5 million the previous year. The increase comes from the increase in long-term debt resulting from the acquisition of Tarkett NA.

Net income before amortization of goodwill was $22.9 million, or $1.03 per share ($1.03 fully diluted) compared to $18.4 million or $1.03 per share ($0.98 fully diluted) for the previous year.

Amortization of goodwill, net of taxes was $4.5 million in 1999, compared to $3.7 million in 1998.

Net income for the year totaled $18.4 million, compared to $14.7 million the previous year.

Earnings per share were $0.83 ($0.83 fully diluted) in 1999; they were $0.82 ($0.80 fully diluted) in 1998. Following the conversion of debentures into 3.4 million common shares around the middle of 1998, the weighted average number of outstanding shares was higher in 1999 than in 1998. The weighted average number of outstanding shares in 1999 was 22,182,000 compared to 17,936,000 a year earlier, taking into account the conversion of the Series 1 Preferred Shares and the Series 2 Preferred Shares issued to Tarkett Sommer AB in connection with the acquisition of Tarkett NA.

NET INCOME FOR THE YEAR TOTALED $18.4 MILLION, COMPARED TO $14.7 MILLION THE PREVIOUS YEAR.

Cash flows

Domco Tarkett's cash flow from operating activities, before the net change in non-cash working capital items related to operations, was $40.5 million in 1999, compared to $34.2 million in 1998. The use of cash resulting from the net change in non-cash working capital items related to operations was $0.8 million in 1999, compared to $14.9 million in 1998. This variation is mostly due to the decrease in inventories over the course of the last quarter of 1999.

Investments during the year totaled $32.3 million, used mainly for completing the first phase of the expansion of the Farnham plant, at a cost of $18 million. In Houston, investments of more than $7 million increased the productivity and storage capacity of the plant. Investments were also made in the Farnham and Florence plants to improve the quality of products as well as the flexibility and productivity of manufacturing processes.

With regard to financing, it was an active year, mostly with the acquisition of Tarkett NA.

The Corporation negotiated credit facilities of US$130 million with a banking syndicate, US$15 million of which can be drawn in equivalent Canadian funds. These facilities have been used notably to reimburse some of Tarkett NA's debts, including a loan of $91.7 million from the parent company; they have also been used to finance the restructuring program of sheet floor covering manufacturing operations and the expansion of the Farnham facilities, as well as the working capital of the Corporation and its subsidiaries.

At the close of the transaction and of its financing, the Corporation put an end to two credit facilities totaling $34 million or its equivalent in U.S. dollars, none of which were used at the time of the close.

During the fourth quarter, the Corporation reimbursed $55.8 million of its long-term debt.

At December 31, 1999, 25,400,535 common shares were issued and outstanding.

Dividends

The policy of the Corporation is to pay dividends on a semi-annual basis. Dividends have been declared and paid in each of the last eight years.

In 1999, total dividends reached $6.1 million, compared to $4.9 million in 1998. The increase results from the payment of dividends on preferred shares in the context of the financing of the Tarkett NA acquisition. A dividend of $0.15 per common share was paid on July 6, 1999 and another of $0.125 was paid December 17, 1999. In all, the amount of dividends paid in 1999 was $0.275 per common share, the same amount paid in 1998. On December 17, 1999, the Corporation also paid a dividend of $10.1215 for every Series 1 and Series 2 Preferred Share having each a stated capital of $1,000.

The impact of fluctuations in the exchange rate on cash and cash equivalents decreased their value, following the appreciation of the Canadian dollar throughout the year.

In all, 1999 resulted in a net increase in cash flow of $9.2 million.

Financial Position

Domco Tarkett shareholders' equity increased by 33.2% in 1999. This strong increase results from the issue of Series 1 and Series 2 Preferred Shares during the year, which were converted into common shares on December 31, 1999, as well as from the year's profitability. The decrease in deferred translation adjustments reduced shareholders' equity by $10.5 million. This decrease reflects the increase of the Canadian dollar's value of about 3% compared to the U.S. dollar throughout 1999.

The Corporation issued to Tarkett Sommer AB 43,000 Series 1 Preferred Shares and 27,000 Series 2 Preferred Shares, for a total value of $70 million, in partial payment for Tarkett NA shares. In compliance with the various scenarios approved by shareholders and in light of market conditions over the final months of 1999, these preferred shares were converted into 5,668,016 common shares, on the basis of $12.35 per common share. This conversion price was set by the Board of Directors, on the recommendation of an Independent Committee based on the assessment of an independent valuator. On the date of conversion, December 31, 1999, the common share of Domco Tarkett closed at $8.40 on the Toronto Stock Exchange.

Working capital was $157.1 million at December 31, 1999, compared to $87.7 million one year earlier. The increase is due to a large extent to the working capital of $83.4 million resulting from the Tarkett NA acquisition on July 30, 1999.

Cash and cash equivalents of the Corporation totaled $20.0 million at the end of 1999, compared to $10.8 million the previous year.

The increase in accounts receivable is proportionate to the Corporation's growth in size following the acquisition. However, the percentage increase in inventories is less than the growth of the Corporation. In fact, the inventories were exceptionally high at the end of 1998. Furthermore, the appreciation of the Canadian dollar translated into a depreciation, in Canadian funds, of the inventories of products manufactured in the United States.

Accounts payable and accrued liabilities were at $76.5 million at the end of the year, compared to $38.9 million one year earlier, due mainly to the Tarkett NA acquisition.

Net book value of property, plant and equipment reached $167.9 million at the end of 1999; compared to $69.1 million one year earlier. This increase of $98.8 million flows from investments and depreciation for the year, as well as the consolidation of Tarkett NA's capital items, which were worth $89.1 million at the time of acquisition. The net book value of the capital items at December 31, 1999 also reflects the impact of the appreciation of the Canadian dollar on the value of American capital items converted in Canadian funds.

The "other assets" item increased significantly in 1999, going from $13.5 million to $27.2 million. The main factor of growth is the consolidation of Tarkett NA's sales aids, including displays and samples and the pension plan assets related to Tarkett NA employee benefit plans.

Long-term debt was $172.6 million on December 31, 1999, or $178.8 million when including the current portion of the long-term debt. On December 31, 1998, the long-term debt was $65.6 million.

At the end of 1999, the ratio of long-term debt (including the current portion) to shareholders' equity was 0.6:1, compared to 0.3:1 at the end of 1998. The current ratio even though higher than last year, is still below the required ratios from our bankers.

The Corporation recorded accrued benefit obligations of $28.3 million for future employee benefits, to take into consideration the actuarial value of obligations that were part of Tarkett NA's employee benefit plans.

At December 31, 1999, the Corporation had unused short-term credit facilities of US$25 million. In accordance with credit arrangements implemented during the acquisition of Tarkett NA, the Corporation also had a revolving credit facility of US$25 million of which US$10 million is not utilized and is available until July 31, 2004.

Capital Expenditures

Capital expenditures totaled $32.3 million in 1999, mainly for the expansion of the Farnham and Houston plants, as well as for equipment for all Domco Tarkett plants.

With an investment budget of about $17 million, capital expenditures for 2000 will remain substantial, although not as high as those for 1999. Domco Tarkett will invest in all its plants. The majority of investments will increase plant capacity or productivity, notably those at Harris Tarkett plants, which have seen accelerated growth on the hardwood flooring market.

The Corporation intends to finance its capital expenditures using its internal cash flows and part of its unused credit facilities. Depreciation and amortization budget for 2000 totals about $32 million.

Risks and Uncertainties

Cyclicality/Seasonality of markets—The flooring market is dependent on the level of construction and renovation activities in both the commercial and the residential sectors. The commercial sector lags the economic cycle by one to two years while the residential market coincides with it. The Corporation has noted that the renovation sector is generally less affected by the economic cycle than the new construction sector. In some instances, particularly in the case of certain high-end products, demand may actually increase during slow economic periods due to consumers deciding to renovate their homes rather than to move.

Currency fluctuations—Any increase in the relative value of the Canadian dollar compared to the U.S. dollar could have a negative effect on its competition with the United States. Despite its appreciation in 1999, the current exchange rate for the Canadian dollar remains favorable for the Corporation's operations. Sales of Canadian-made products in the U.S. market are naturally hedged to a large extent by the high volume of raw material purchased from the United States.

Competition—Domco Tarkett products are in competition with other types of flooring available on the North American market. There has recently been increased penetration of the high end of the residential market by floor coverings made of natural materials, such as wood and stone, as well as by new products such as laminated flooring; all of this at the expense of vinyl flooring and carpets. Domco has made appropriate adjustments to its product line and market positioning. Following the acquisition of Tarkett NA, it is now present in the rapidly growing hardwood flooring market. Also, throughout the past few years, it has developed quality and esthetically appealing resilient flooring that rivals natural materials. The Corporation has undertaken the repositioning of a part of its product line in order to command the attention of natural material consumers. Domco Tarkett is therefore better positioned to withstand shifts in fashion and consumer taste.

Year 2000 Compliance

As mentioned last year, the Corporation completed, during the year, its year 2000 compliance program in the set deadlines and cost budgets.

During the year, an amount of $720,000 corresponding to the last phase of implementation of its application software was capitalized. The other costs related to the year 2000 passage, which were not significant, were charged to the operating results of the year.

The Corporation, to this day, is not aware of any problems related to the year 2000 issue nor with its internal systems or with its business partners.

The Corporation will follow the evolution of the project, internally and with its business partners, to respond promptly should any problems surface.

Outlook

Domco Tarkett's management is optimistic for 2000.

Although competition will remain intense in the residential sector, management believes that the expansion and repositioning of its product line, as well as the strategies it puts forth, will continue to provide opportunities for profitable growth.

The restructuring of operations following the integration of Tarkett NA enables the efficiency of Domco Tarkett operations to improve significantly and increase profitability as a result of the expected synergies. This impact will be more and more evident throughout 2000.

Due to major modifications to the Corporation's product portfolio, particularly with the introduction of hardwood flooring, the gross margin percentage achieved by the Corporation will not compare to previous levels. A permanent decrease in the gross margin ratio is expected. This decrease shall be more than compensated by a comparative decrease in administration, distribution and selling expenses. Overall, management believes that the EBITDA should progress significantly this year, in relative and absolute terms.

At the same time, Domco Tarkett is constantly improving its operating efficiency, making it one of the most efficient producers in the industry. It also increases its capacity to remain profitable even in the most competitive market segments.

With an improved stature, an expanded and repositioned product line, a portfolio of brand names, a distribution network covering all of North America, and plants among the most efficient in the industry, Domco Tarkett is in a position to expand its market share and steadily increase its sales and profitability.

QUARTERLY FINANCIAL RESULTS (unaudited)
(in thousands of dollars, except per share amounts)

	1999				1998			
	Quarters ending				Quarters ending			
	March 27	June 26	Sept. 25	Dec. 31	March 28	June 27	Sept. 26	Dec. 31
Revenues	77,807	103,228	155,048	155,369	82,150	91,982	92,531	84,135
Gross Margin	27,945	33,381	46,863	48,452	30,171	31,946	31,987	28,488
Net income	3,386	5,346	4,925	4,731	4,355	3,967	4,488	(1) 1,915
Basic earnings per share ($)	0.17	0.27	0.20	0.19	0.27	0.24	0.23	(1) 0.10
Fully diluted earnings per share ($)	0.17	0.27	0.20	0.19	0.23	0.22	0.22	0.10

(1) Without the unusual item represented by the loss of a court case, net income for 1998 would have been $16.2 million, or $0.90 per share. For the fourth quarter, without the unusual item posted, net income would have been $3.4 million or $0.17 per share.

[Management's Responsability for Financial Reporting]

The accompanying consolidated financial statements of Domco Tarkett Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles.

When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

The significant accounting policies used are described in note 2 to the consolidated financial statements. Certain amounts in the financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

Domco Tarkett Inc. maintains systems of internal accounting and administrative controls which are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and for reviewing and approving the financial statements. The Audit Committee is appointed by the Board, and all of its members are outside directors. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.

Robert W. Van Buren

Robert W. Van Buren
Vice Chairman and CEO
February 7, 2000

[Auditors' Report]

TO THE SHAREHOLDERS OF
Domco Tarkett Inc.

We have audited the consolidated balance sheets of **Domco Tarkett Inc.** (the "Corporation") [formerly Domco Inc.] as at December 31, 1999 and 1998 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young LLP
Chartered Accountants

Montréal, Canada,
January 24, 2000.

CONSOLIDATED BALANCE SHEETS

As at December 31

	1999 $	1998 $
	[in thousands of dollars]	
ASSETS [note 8]		
Current assets		
Cash and cash equivalents	**19,981**	10,778
Accounts receivable	**64,970**	31,955
Inventories [note 4]	**141,445**	76,932
Prepaid expenses	**8,854**	2,361
Income taxes recoverable	**4,558**	3,924
Deferred income taxes	**—**	665
	239,808	126,615
Property, plant and equipment [note 5]	**167,914**	69,083
Goodwill, net of accumulated amortization [note 3]	**135,448**	119,918
Deferred income taxes	**3,958**	—
Other assets [note 6]	**27,188**	13,485
	574,316	329,101
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities [note 12]	**76,481**	38,879
Current portion of long-term debt [note 8]	**6,185**	—
	82,666	38,879
Long-term debt [note 8]	**172,604**	65,646
Deferred income taxes	**3,976**	9,383
Accrued employees' future benefit liabilities [note 11]	**28,330**	—
	287,576	113,908
Shareholders' equity		
Capital stock and contributed surplus [note 9]	**166,891**	96,829
Retained earnings	**109,325**	97,334
Deferred translation adjustments [note 10]	**10,524**	21,030
	286,740	215,193
	574,316	329,101

Commitments and contingencies [notes 14 and 16]

See accompanying notes

On behalf of the Board:

Director

Robert W. Van Buren

Director

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31

	1999 $	1998 $
	[in thousands of dollars, except per share amounts]	
Revenues [note 12]	**491,452**	350,798
Cost of goods sold	**334,811**	228,206
Gross margin	**156,641**	122,592
Expenses		
Administrative, distribution and selling expenses	**105,423**	81,306
Depreciation	**15,481**	9,914
Interest on long-term debt and convertible debentures	**8,350**	5,516
	129,254	96,736
Income before the undernoted	**27,387**	25,856
Loss resulting from lawsuit [note 15]	**—**	2,404
Income before provision for income taxes and amortization of goodwill	**27,387**	23,452
Provision for (recovery of) income taxes [note 13]		
Current	**5,126**	3,507
Deferred	**(591)**	1,562
	4,535	5,069
Net income before amortization of goodwill	**22,852**	18,383
Amortization of goodwill net of recovery of income taxes of $2,088,000 [1998 – $2,057,000]	**4,464**	3,658
Net income	**18,388**	14,725
Earnings per share before amortization of goodwill		
Basic	**1.03**	1.03
Fully diluted	**1.03**	0.98
Earnings per share		
Basic	**0.83**	0.82
Fully diluted	**0.83**	0.80

See accompanying notes

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31

	1999 $	1998 $
	[in thousands of dollars]	
Balance, beginning of year	**97,334**	86,815
Net income	**18,388**	14,725
	115,722	101,540
Common share dividends	**(5,425)**	(4,941)
Preferred share dividends	**(709)**	—
Fees relating to conversion of preferred shares, net of income taxes [note 9]	**(263)**	—
Adjustment related to conversion of debentures	—	735
Balance, end of year	**109,325**	97,334

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

	1999 $	1998 $
	[in thousands of dollars]	
OPERATING ACTIVITIES		
Net income	**18,388**	14,725
Adjustments to determine net cash from operating activities		
Depreciation	**15,481**	9,914
Amortization	**7,177**	6,147
Deferred income taxes	**1,059**	3,349
Other	**(1,591)**	35
	40,514	34,170
Net change in non-cash working capital items related to operations	**(760)**	(14,889)
Cash flows from operating activities	**39,754**	19,281
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(32,304)**	(13,748)
Proceeds from disposal of property, plant and equipment	**797**	—
Business acquisition, net of cash acquired of $10,488,000 [note 3]	**280**	—
Cash flows used in investing activities	**(31,227)**	(13,748)
FINANCING ACTIVITIES		
Increase in long-term debt	**158,382**	6,377
Repayment of long-term debt	**(57,836)**	(4,316)
Repayment of long-term debt – parent company	**(91,682)**	—
Dividends	**(6,134)**	(4,941)
Debt issue costs	**(1,464)**	(552)
Other	**(182)**	936
Cash flows from (used in) financing activities	**1,084**	(2,496)
Effect of changes in exchange rates on cash and cash equivalents	**(408)**	5,799
Increase in cash and cash equivalents	**9,203**	8,836
Cash and cash equivalents, beginning of year	**10,778**	1,942
Cash and cash equivalents, end of year	**19,981**	10,778
Supplementary information:		
Interest paid during the year	**6,654**	4,062
Income taxes (received) paid during the year, net	**(605)**	1,065

See accompanying notes

[Notes to Consolidated Financial Statements]

December 31, 1999 and 1998
[Tabular figures in thousands of dollars, except number of shares]

1. ORGANIZATION AND BASIS OF PRESENTATION

Domco Tarkett Inc. [the "Corporation"], formerly Domco Inc., is a manufacturer and distributor of floor covering products. These consolidated financial statements are expressed in Canadian dollars and include the accounts of the Corporation and those of its subsidiaries from the date of acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Consolidated statement of cash flows
Effective January 1, 1999, the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") regarding the presentation of cash flows information.

Under the new recommendations, non-cash transactions are excluded from the statement of cash flows and disclosed elsewhere in the financial statements and cash and cash equivalents exclude bank indebtedness.

Cash flow information for the prior year has been restated to conform to the new recommendations. As a result, the effect of exchange rate movements on cash and cash equivalents which was shown in investing activities is now presented separately and non-cash transactions, principally the conversion of debentures into Common Shares, have been excluded.

Cash and cash equivalents
Cash and cash equivalents comprise cash and highly liquid investments which have a maturity of three months or less from the date of acquisition.

Inventories
Finished goods and work-in-process are valued at the lower of cost, determined on the first-in, first-out basis, and net realizable value. Raw materials are valued at the lower of cost, determined on the first-in, first-out basis, and replacement cost.

December 31, 1999 and 1998

[Tabular figures in thousands of dollars, except number of shares]

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Property, plant and equipment

Property, plant and equipment are recorded at cost, net of applicable government grants and investment tax credits. Depreciation is provided based on the estimated useful lives of the assets on the following basis:

	Methods	Rates
Buildings and improvements	declining balance and straight-line	3% to 20%
Equipment	declining balance and straight-line	4% to 33%
Property under capital lease	straight-line	3%

No depreciation is provided for assets under construction or development.

Deferred charges

Charges related to debt financing are deferred and amortized over the duration of the financing. Other deferred charges are amortized using the straight-line method over their estimated useful lives.

The net cost of sales aids is deferred and amortized using the straight-line method over a period not exceeding 24 months.

Goodwill

Goodwill, representing the cost of investments in subsidiaries in excess of the fair value of the net identifiable assets acquired, is amortized using the straight-line method over a period not exceeding 25 years. The value of goodwill is regularly evaluated by management by reviewing the net recoverable amounts of the related acquired businesses. The net recoverable amount represents the estimated future operating income of the acquired business on a non-discounted basis. Any permanent impairment in the value of goodwill is written off against earnings.

Translation of foreign currencies

The Corporation translates the accounts of its self-sustaining U.S. subsidiaries using the current rate method. All balance sheet items are translated into Canadian dollars at rates of exchange prevailing at the year-end. Revenue and expense items are translated at average rates of exchange prevailing during the year. The resulting net gain or loss is shown as "Deferred translation adjustments" in shareholders' equity.

December 31, 1999 and 1998

[Tabular figures in thousands of dollars, except number of shares]

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Accounts of the Corporation in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at year-end, and non-monetary items are translated at historical exchange rates. Foreign currency transactions are translated at the weighted average rate for the year. Exchange gains or losses are included in the consolidated statements of income, except those related to the translation of long-term debt which are deferred and amortized over its remaining life on a straight-line basis.

Employee future benefits

The Corporation and its subsidiaries maintain defined benefit and defined contribution pension plans for the benefit of substantially all employees. In addition, the Corporation provides other benefits, such as life and medical insurance, to certain retired employees.

Effective January 1, 1999, the Corporation adopted the new recommendations of the CICA regarding employee future benefits. The adoption of the new recommendations had no significant impact on consolidated financial statements of prior years, except for note disclosure.

Under the new recommendations, the Corporation and its subsidiaries accrue their obligations under employee benefit plans and the related costs, net of plan assets. The Corporation has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at market value.
- Past service costs resulting from plan amendments and net actuarial gains (losses) are amortized on a straight-line basis over the average remaining service period of the active employees.
- The average remaining service period of the active employees covered by the pension plans is between 11 and 15 years [1998 – 15 years]. The average remaining service period of the active employees covered by the other retirement benefit plans is between 8 and 11 years [nil in 1998].

December 31, 1999 and 1998

[Tabular figures in thousands of dollars, except number of shares]

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Income taxes

The Corporation provides for income taxes under the tax allocation basis of accounting whereby income taxes are provided for in the year in which the related income is reflected in the consolidated financial statements. Deferred income taxes result from timing differences between the recognition of income and expenses for income tax and financial statement purposes.

Earnings per share

Basic earnings per share are calculated using the weighted average number of Common Shares and Preferred Shares outstanding during the year since the Preferred Shares rights to participate in the Corporation's earning are equivalent to those of the Common Shares. Fully diluted earnings per share are calculated based on the weighted average number of shares that would have been outstanding during the year had all convertible debentures, warrants and options been converted or exercised at the beginning of the year (or the date of issuance of these instruments, if later).

Convertible debentures

The debentures were converted in 1998 into Common Shares of the Corporation at the holders' option. Upon conversion of the debentures, related deferred financing charges and accrued interest were charged to retained earnings, net of income taxes.

Long-term incentive plan

The Corporation has a long-term incentive plan, which is described in note 9. No compensation expense is recognized for this plan when shares or options are issued to plan participants.

3. BUSINESS ACQUISITION

On July 30, 1999, the Corporation acquired from its parent company all of the issued and outstanding shares of Tarkett North America Holding, Inc. ("Tarkett NA"), a U.S. corporation engaged in the manufacturing and marketing of resilient and hardwood floor covering products, at a price of $80,208,000 including acquisition costs of $4,858,000. The acquisition price was based on an independent evaluation of Tarkett NA and approved by an Independent Committee of the Board of Directors of the Corporation. The acquisition also required approval by a majority of the non-controlling shareholders of the Corporation. This acquisition has been accounted for using the purchase method and the results of operations of Tarkett NA have been consolidated from July 31, 1999.

December 31, 1999 and 1998

[Tabular figures in thousands of dollars, except number of shares]

3. BUSINESS ACQUISITION [Cont'd]

The following reflects the allocation of the purchase price to the net assets acquired:

	$
Net assets acquired at fair value	
Cash and cash equivalents	10,488
Accounts receivable	43,844
Inventories	82,625
Other current assets	16,345
Property, plant and equipment	89,117
Other assets	7,609
Accrued employees' future benefit assets	4,745
Deferred income taxes	9,767
	264,540
Accounts payable and accrued liabilities	(69,920)
Long-term debt	(23,190)
Long-term debt – parent company	(91,682)
Accrued employees' future benefit liabilities	(29,380)
Goodwill	29,840
Net assets acquired	80,208
Consideration paid	
Cash	10,208
Issue of 43,000 Preferred Shares, Series 1 to Tarkett AB, the parent company	43,000
Issue of 27,000 Preferred Shares, Series 2 to Tarkett AB, the parent company	27,000
	80,208

The Share Purchase Agreement includes a contingent consideration clause based on future results of the next four years ending December 31, 2003. Under this clause, the Corporation may have to pay an additional consideration of up to $40 million. The amount of this contingent consideration, if any, is not determinable at this time and has not, therefore, been included in the allocation of the purchase price.

4. INVENTORIES

	1999 $	1998 $
Raw materials	**23,673**	4,493
Work-in-process	**11,391**	2,977
Finished goods	**106,381**	69,462
	141,445	76,932

December 31, 1999 and 1998
[Tabular figures in thousands of dollars, except number of shares]

5. PROPERTY, PLANT AND EQUIPMENT

	1999		1998	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
	$	$	$	$
Land	**5,453**	**—**	3,405	—
Buildings and improvements	**72,990**	**12,616**	25,725	10,647
Equipment	**180,538**	**86,663**	125,772	77,993
Assets under construction or development	**4,829**	**—**	2,821	—
Property under capital lease	**3,458**	**75**	—	—
	267,268	**99,354**	157,723	88,640
Accumulated depreciation	**99,354**		88,640	
Net book value	**167,914**		69,083	

The cost of property, plant and equipment has been presented net of $3.8 million of government assistance earned during 1999 [nil in 1998].

6. OTHER ASSETS

	1999	1998
	$	$
Sales aids, net of accumulated amortization	**14,704**	8,362
Accrued employees' future benefit assets [note 11]	**5,926**	354
Deferred financing charges, net of accumulated amortization	**1,798**	423
Deferred foreign exchange loss, net of accumulated amortization	**1,195**	1,564
Cash surrender value of life insurance	**1,912**	1,170
Other	**1,653**	1,612
	27,188	13,485

7. SHORT-TERM CREDIT FACILITIES

As at December 31, 1999, the Corporation has unused credit facilities of US $25 million [1998 – CDN $15 million] under which amounts can be drawn in Canadian or US dollars at variable rates based on US base rate, LIBOR, Canadian Base rate or Canadian prime rate plus a premium determined on a quarterly basis. These credit facilities are renewable annually [note 8].

December 31, 1999 and 1998

[Tabular figures in thousands of dollars, except number of shares]

8. LONG-TERM DEBT

	1999 $	1998 $
[a] Revolving term loan under a US $45 million credit facility bearing interest at the LIBOR rate plus 0.75% [LIBOR rate plus 0.70% in 1998] and payable in minimum annual instalments of US $2.8 million and a final payment of US $25.8 million on March 31, 2003. The loan outstanding at December 31, 1999 was US $34.2 million [US $42.2 million at December 31, 1998]. The effective interest rate as at December 31, 1999 was 6.89% [5.92% in 1998].	**49,361**	64,705
[b] Term loan of US $60 million bearing interest at variable rates based on LIBOR or US base rate plus a premium determined on a quarterly basis, payable in minimum annual instalments of US $6.6 million commencing on July 30, 2001 and a final payment of US $40.2 million on July 31, 2004. The effective interest rate as at December 31, 1999 was 7.94%.	**86,598**	—
[c] Revolving loan under a credit facility of US $25 million bearing interest at variable rates based on LIBOR or US base rate plus a premium determined on a quarterly basis, maturing on July 31, 2004. The loan outstanding at December 31, 1999 was US $15 million and the effective interest rate was 7.94%.	**21,650**	—
[d] Note, 6.5%, payable in annual instalments of US $1.3 million and maturing on August 15, 2003. The loan outstanding at December 31, 1999 was US $5.2 million.	**7,505**	—
[e] Note, 6.0%, payable as to US $3.0 million on August 15, 2002 and as to US $3.5 million on August 15, 2003. The loan outstanding at December 31, 1999 was US $6.5 million.	**9,382**	—
[f] Obligations under capital lease of US $2.3 million bearing interest at 9.75%, repayable in monthly instalments of US $33,000 and maturing in 2008.	**3,352**	—
[g] Interest-free loan from Société de développement industriel du Québec ["SDI"] payable in five annual instalments of $188,160 commencing in September 2002.	**941**	941
	178,789	65,646
Less current portion	**6,185**	—
	172,604	65,646

December 31, 1999 and 1998

[Tabular figures in thousands of dollars, except number of shares]

8. LONG-TERM DEBT [Cont'd]

The loans under [a], [b], [c] and the unused short-term credit facilities described in note 7 are collaterized by a negative pledge on all the assets of the Corporation and its subsidiaries.

The note under [d] is collateralized by land and buildings and improvements.

The terms of the credit facilities require that certain financial and non-financial covenants be met by the Corporation. These include the maintenance of certain financial tests and ratios and certain restrictions and limitations, including those on the amount of capital expenditures and amount of dividends paid by the Corporation. Management considers that respecting these covenants will not affect normal operations.

The Corporation is party to an interest rate cap agreement by which the LIBOR floating interest rate on US $5 million is effectively capped at 7%. This amount decreases quarterly by US $2.5 million until May 11, 2000.

Payments required over the next five years for long-term debt, excluding obligations under capital lease, are as follows:

	$
2000	5,918
2001	15,443
2002	19,961
2003	53,879
2004	79,860
	175,061

The minimum payments required for obligations under capital lease are as follows:

	$
2000	572
2001	572
2002	572
2003	572
2004	572
Thereafter	2,141
Total minimum lease payments	5,001
Less: amount representing interest at 9.75%	1,649
Present value of net minimum capital lease payments	3,352
Current portion of obligations under capital lease	267
	3,085

December 31, 1999 and 1998
[Tabular figures in thousands of dollars, except number of shares]

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

[a] Authorized
Unlimited number of Common Shares.

1,779,100 warrants to purchase Common Shares of the Corporation at $11.00 per Common Share on or before November 6, 1998, after which date the warrants became null and void.

[b] Capital stock and contributed surplus

	1999 $	1998 $
Issued and outstanding		
25,400,535 Common Shares [1998 – 19,724,744]	**165,405**	95,343
Contributed surplus	**1,486**	1,486
	166,891	96,829

[c] Summary of Common Shares transactions

	Number of shares	Amount $
Balance, December 31, 1997	**16,265,749**	**57,253**
Shares issued upon:		
Conversion of debentures	**3,424,165**	**37,666**
Exercise of warrants	**33,830**	**406**
Share purchase plan	**1,000**	**18**
Balance, December 31, 1998	**19,724,744**	**95,343**
Shares issued upon:		
Conversion of preferred shares	**5,668,016**	**70,000**
Share purchase plan	**7,775**	**62**
Balance, December 31, 1999	**25,400,535**	**165,405**

During 1998, 38,650 warrants were exercised. Pursuant to the warrant indenture, 33,830 Common Shares were issued from treasury for a cash consideration of $372,130 and 4,820 Common Shares were delivered by a shareholder. On November 6, 1998, the outstanding warrants expired and the balance of $1,485,837 was credited to contributed surplus.

December 31, 1999 and 1998
[Tabular figures in thousands of dollars, except number of shares]

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS [Cont'd]

[d] Summary of Preferred Shares transactions

As part of the purchase price of Tarkett NA [see note 3], the Corporation issued the following Preferred Shares on July 30, 1999:

43,000 Preferred Shares, Series 1, non-cumulative dividend equivalent to the dividend declared per Common Share; convertible into a number of Common Shares based on the price of a public equity offering or as determined by an independent valuer designated by an Independent Committee of the Board of Directors for that purpose but in no event less than $10 per Common Share.

27,000 Preferred Shares, Series 2, non-cumulative dividend equivalent to the dividend declared per Common Share; automatically redeemable concurrently with the closing of a public equity offering; if not all redeemed, convertible into a number of Common Shares based on a price determined by an independent valuer designated by an Independent Committee of the Board of Directors for that purpose but in no event less than $10 per Common Share.

On December 31, 1999, the Corporation converted all of its issued and outstanding Preferred Shares Series 1 and Series 2 into 5,668,016 Common Shares at a conversion price of $12.35 per Common Share, which was determined by an Independent Committee of the Board of Directors as fair and equitable and based upon a value fixed by an independent valuer designated by the Independent Committee.

[e] Long-term incentive plan

The Corporation has a long-term incentive plan [the "Plan"] for its senior executives. The Plan is composed of a share purchase plan and options to purchase Common Shares of the Corporation.

According to the terms of the share purchase plan, each eligible executive under the Plan will be entitled to purchase a number of Common Shares of the Corporation over a five-year period as a function of base salary, at a price equal to 95% of the weighted average price of the Common Shares on the Toronto Stock Exchange during the five consecutive days prior to the purchase date. The maximum number of Common Shares that may be issued pursuant to the share purchase plan will not exceed 90,000.

In addition, the Board may from time to time grant options to purchase Common Shares of the Corporation to eligible executives. The options may be exercised at an amount equal to or greater than the average closing price of the Common Shares on the Toronto Stock Exchange on the last business day before the date of the grant. The options vest over a period of five years and can be exercised at all times up to seven years after they have been granted. The maximum number of Common Shares that are issuable under the Plan following the exercise of options granted will not exceed 450,000. During 1999, 73,750 options [nil in 1998] were issued at an exercise price of 10 $ per share, representing all outstanding options as at December 31, 1999.

December 31, 1999 and 1998

[Tabular figures in thousands of dollars, except number of shares]

10. DEFERRED TRANSLATION ADJUSTMENTS

	1999 $	1998 $
Balance, beginning of year	**21,030**	10,663
Translation adjustments for the year resulting from changes in U.S.– Canada exchange rate	**(10,506)**	10,367
Balance, end of year	**10,524**	21,030

11. EMPLOYEE FUTURE BENEFITS

Information about the Corporation's defined benefit plans, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
	1999 $	1998 $	1999 $	1998 $
Accrued benefit obligations				
Balance, beginning of year	**9,902**	9,134	**—**	—
Balance related to Tarkett NA [note 3]	**52,559**	—	**29,380**	—
Current service cost	**2,579**	1,834	**180**	—
Interest cost	**2,355**	675	**776**	—
Actuarial losses (gains)	**2,981**	141	**(725)**	—
Benefits paid	**(2,012)**	(2,379)	**(613)**	—
Foreign exchange rate changes and other	**(2,946)**	497	**(1,081)**	—
Accrued benefit obligations, end of year	**65,418**	9,902	**27,917**	—

December 31, 1999 and 1998

[Tabular figures in thousands of dollars, except number of shares]

11. EMPLOYEE FUTURE BENEFITS [Cont'd]

	Pension Benefit Plans		Other Benefit Plans	
	1999	1998	1999	1998
	$	$	$	$
Plan assets				
Fair value, beginning of year	**11,474**	10,437	**—**	—
Balance related to Tarkett NA [note 3]	**57,304**	—	**—**	—
Actuarial return on plan assets	**4,903**	1,166	**—**	—
Employer contributions	**1,899**	1,677	**472**	—
Benefits paid	**(2,012)**	(2,379)	**(613)**	—
Foreign exchange rate changes and other	**(3,205)**	573	**141**	—
Fair value, end of year	**70,363**	11,474	**—**	—
Funded status – plan surplus (deficit)	**4,945**	1,572	**(27,917)**	—
Unamortized net actuarial (gains) losses	**981**	(1,218)	**(413)**	—
Accrued employees' future benefit asset (liability)	**5,926**	354	**(28,330)**	—

Included in the above accrued benefit obligations and fair value of plan assets at year-end are the following amounts in respect to plans that are not fully funded:

	Pension Benefit Plans		Other Benefit Plans	
	1999	1998	1999	1998
	$	$	$	$
Accrued benefit obligations	**30,722**	—	**27,917**	—
Fair value of plan assets	**29,084**	—	**—**	—
Funded status – plan deficit	**(1,638)**	—	**(27,917)**	—

December 31, 1999 and 1998

[Tabular figures in thousands of dollars, except number of shares]

11. EMPLOYEE FUTURE BENEFITS [Cont'd]

The significant actuarial assumptions adopted in measuring the accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

	Pension Benefit Plans		Other Benefit Plans	
	1999	**1998**	**1999**	**1998**
	%	%	%	%
Discount rate	**6.98**	7.40	**7.50**	—
Expected long-term rate of return on plan assets	**8.80**	8.00	**—**	—
Rate of compensation increase	**4.00**	4.00	**5.00**	—

For measurement purposes, a 7.5% annual rate of increase in covered health care was assumed for 2000. The rate was assumed to decrease gradually to 5% for 2005 and remain at that level thereafter.

The Corporation's net benefit plan expense is as follows:

	Pension Benefit Plans		Other Benefit Plans	
	1999	**1998**	**1999**	**1998**
	$	$	$	$
Current service cost	**2,579**	1,834	**180**	—
Interest cost	**2,355**	675	**776**	—
Expected return on plan assets	**(2,215)**	(925)	**—**	—
Other	**91**	(43)	**(244)**	—
Net benefit plan expense	**2,810**	1,541	**712**	—

December 31, 1999 and 1998

[Tabular figures in thousands of dollars, except number of shares]

12. RELATED PARTY TRANSACTIONS

Related party transactions were conducted in the normal course of operations and are measured at the exchange amount, which is the consideration established and agreed to by the related parties, except for the purchase of equipment which was measured at net book value.

The following table summarizes the Corporation's transactions for the year with related parties, excluding the acquisition described in note 3:

	1999 $	1998 $
Transactions for the year		
Companies under common control		
Revenues	**27,063**	3,788
Purchases – equipment	**873**	—
Purchases – inventory	**2,585**	3,292
Parent company		
Purchases – inventory	**3,945**	—
Balance at year end		
Parent company		
Accounts payable and accrued liabilities	**2,397**	—

13. INCOME TAXES

The effective income tax rates differ from the Canadian federal–provincial statutory income tax rates due principally to the following:

	1999		1998	
	$	%	$	%
Income taxes calculated at statutory rates	**10,845**	**39.6**	9,287	39.6
Increase (decrease) resulting from:				
Manufacturing and processing deductions	**(494)**	**(1.8)**	(201)	(0.9)
Lower tax rates for U.S. subsidiaries	**(4,861)**	**(17.7)**	(3,969)	(16.9)
Permanent differences	**(414)**	**(1.5)**	252	1.1
Other	**(541)**	**(2.0)**	(300)	(1.3)
	4,535	**16.6**	5,069	21.6

December 31, 1999 and 1998
[Tabular figures in thousands of dollars except number of shares]

14. COMMITMENTS

The Corporation is committed under operating leases for premises and equipment which require future minimum annual rental payments as follows:

	$
2000	4,072
2001	2,883
2002	1,884
2003	893
2004	838
Thereafter	1,662
	12,232

15. LOSS RESULTING FROM LAWSUIT

On November 9, 1998, the Iowa Supreme Court affirmed a final judgment rendered against the Corporation following a lawsuit instituted by one of its former distributors in 1993. As a result, an amount of $2,403,645, representing the amount of the judgment, related interest and fees, has been charged to the statement of income of 1998.

December 31, 1999 and 1998
[Tabular figures in thousands of dollars, except number of shares]

16. CONTINGENCIES

[a] On June 23, 1997, Armstrong World Industries Inc. ("Armstrong") commenced an action in the Ontario Court (General Division) against the directors of the Corporation seeking declaratory relief and damages in the amount of $50 million, claiming that the directors of Domco acted improperly in dealing with Armstrong's takeover bid. During the year, the action was dismissed without costs.

[b] During 1999, the Corporation acquired the shares of Tarkett NA. In the normal course of operations, there are pending claims by and against Tarkett NA and its subsidiaries. These include claims with respect to products sold or alleging personal injury on property damage from asbestos-containing flooring products as well as off-site clean up costs and environmental remediation costs.

The Corporation will be indemnified for the periods covered by the Share Purchase Agreement in respect of all foregoing contingencies, existing or threatened, prior to the acquisition date, by Tarkett Sommer AG and Tarkett Sommer AB (formerly Tarkett AB).

[c] In the normal course of operations, there are pending claims by and against the Corporation. In addition, one of the Corporation's subsidiaries has been named codefendant in asbestos-related lawsuits involving personal injuries. It is the opinion of management, based on the advice and information provided by its legal counsel, that final determination of these cases will not materially affect the Corporation's consolidated financial position or results of operations.

17. FINANCIAL INSTRUMENTS

[a] Fair values

The methods and assumptions used to estimate the fair value of each class of financial instrument for which it is practicable to estimate a value are as follows:

Short-term financial assets and liabilities

The carrying amounts of these assets and liabilities, which comprise cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are a reasonable estimate of the fair values because of the short maturity of those instruments.

December 31, 1999 and 1998

[Tabular figures in thousands of dollars, except number of shares]

17. FINANCIAL INSTRUMENTS [Cont'd]

Long-term debt

The carrying amount of the Corporation's floating-rate long-term debt approximates its fair value because of its floating rate nature and because the debt, denominated in U.S. dollars, is translated using the reporting date exchange rate.

The fair value of the loans having a fixed interest rate is based on estimated future cash flows discounted using the current market rate for debt of the same remaining maturities, as advised by the Corporation's bankers. The fair value of long-term debt as at December 31, 1999 is $175,191,000 [1998 – $65,881,000] compared to a carrying amount of $178,789,000 [1998 – $65,646,000].

[b] Credit risk

The Corporation sells products to customers primarily in Canada and the United States. Concentration of credit risk with respect to trade receivables is limited due to a significant number of customers comprising the Corporation's customer base and their distribution across different geographic areas. As at December 31, 1999, no customer accounted for more than 10% **[1998 - one customer accounted for approximately 12%] of total trade receivables.**

18. SEGMENT DISCLOSURES

During the fourth quarter of 1999, the Corporation changed its organizational structure which modified the reportable segments. This change had no impact on the information of the previous year because the manufacturing – hardwood floor covering products activities started in 1999 as a result of the business acquisition described in note 3. The Corporation now operates in three reportable segments: two manufacturing segments (resilient floor covering products and hardwood floor covering products) with sales to Canadian and U.S. distributors, and a Canadian distribution segment engaged in the distribution of floor covering products, mainly manufactured by the manufacturing segments. The accounting policies of the segments are the same as those described in note 2. Intersegment revenues are based on terms similar to those with third parties.

December 31, 1999 and 1998

(Tabular figures in thousands of dollars, except number of shares)

18. SEGMENT DISCLOSURES (Cont'd)

	Manufacturing – Resilient floor covering products		Manufacturing – Hardwood floor covering products		Canadian Distribution		Total	
	1999	1998	1999	1998	1999	1998	1999	1998
	$	$	$	$	$	$	$	$
External revenues	354,365	281,871	62,437	—	74,650	68,926	491,452	350,796
Intersegment revenues	35,783	31,153	—	—	—	—	35,783	31,153
Revenues	390,148	313,025	62,437	—	74,650	68,926	527,235	381,951
Depreciation	12,145	9,838	3,265	—	71	76	15,481	9,914
Segment income (loss) from operations	29,205	31,501	8,214	—	(1,252)	841	36,167	32,342
Non-segment expenses								
Interest on long-term debt and convertible debentures							8,350	5,516
Loss resulting from lawsuit							—	2,404
Other							(430)	970
Income before provision for income taxes and amortization of goodwill							27,387	23,452
Identifiable assets	264,144	187,355	112,134	—	26,373	23,277	404,651	210,632
Elimination							(1,709)	(1,872)
Non-segment assets								
Goodwill							135,448	119,909
Other							35,926	423
Total assets							574,316	329,092

December 31, 1999 and 1998

[Tabular figures in thousands of dollars, except number of shares]

18. SEGMENT DISCLOSURES [Cont'd]

Geographic Information

	Revenues		Property, plant and equipment and goodwill	
	1999	1998	1999	1998
	$	$	$	$
Canada	**89,804**	84,890	**39,527**	25,237
United States	**398,739**	261,707	**263,835**	163,764
Other	**2,909**	4,201	**—**	—
	491,452	350,798	**303,362**	189,001

19. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

20. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation of the 1999 consolidated financial statements.

[Board of Directors and Senior Management]

BOARD OF DIRECTORS

• **Robert Arcand**
President
Financière Harricana Inc.

◆ **Marc Assa**
CEO and Chairman of the Management Board
Sommer Allibert

■ **André Bégin**
Partner
Lette & Associés, Lawyers

■ **John B. Claxton, Q.C.**
Counsel
Lafleur Brown, Lawyers

• **Michel Cognet**
COO
Sommer Allibert

• **Claude Lemire**
◆ Business Consultant

■ **Alphonse Lepage**
◆ Director

Fernando E. Stroppiana
President
Mondo S.p.A.

Robert W. Van Buren
Vice Chairman and Chief Executive Officer
Domco Tarkett Inc.

• Member of the Audit Committee
■ Member of the Corporate Governance Committee
◆ Member of the Compensation Committee

SENIOR MANAGEMENT

Marc Assa
Chairman of the Board

Robert W. Van Buren
Vice Chairman and Chief Executive Officer

Ulf Mattsson
President and Chief Operating Officer

John Gallo
Executive Vice President

Robert O. Desautels
Treasurer, Senior Vice President Finance and
Chief Financial Officer

Danièle Béliveau
Vice President, General Counsel and Secretary

Jean-François Courtoy
Vice President, Research and Development

Reginald Hockenberry
Vice President, Human Ressources

Robert F. Sheehan
Vice President, Quality Assurance and Installation Service

DOMCO
John Gallo
President and General Manager

DOMCOR
Gilles de Beaumont
President and General Manager

HARRIS-TARKETT, INC.
Ulf Mattsson
President and General Manager

TARKETT, INC.
Jack R. Lee
President and General Manager

	Addresse	Telephone	Fax
ADMINISTRATIVE OFFICES			
HEAD OFFICE	1001 Yamaska Street East Farnham, Québec J2N 1J7	(450) 293-3173	(450) 293-6644
DOMCOR NATIONAL OPERATIONS CENTER Customer Service	1001 Yamaska Street East Farnham, Québec J2N 1J7	1-877-436-6267	1-877-296-7070
DOMCO INC. USA	1139 Lehigh Avenue Whitehall, Pennsylvania 18052-5599, U.S.A.	(610) 266-5500	(610) 266-5614
TARKETT, INC.	1139 Lehigh Avenue Whitehall, Pennsylvania 18052-5599, U.S.A.	(610) 266-5500	(610) 266-5614
HARRIS-TARKETT, INC.	2225 Eddie Williams Road Johnson City, Tennessee 37601, U.S.A.	(423) 928-3122	(423) 928-9445
WAREHOUSES			
Quebec	6150 des Grandes Prairies blvd. Saint-Léonard (Montréal) H1P 1A2	(514) 322-7934	(514) 328-9601
	2665 Dalton Street Sainte-Foy (Québec City) G1P 3S8	(418) 651-3317	(418) 651-6902
Ontario	3545 Nashua Drive Mississauga L4V 1R1	(905) 677-7311	(905) 677-4193
Manitoba	1310 Mountain Avenue Winnipeg R2X 3A3	(204) 633-8407	(204) 694-7135
Alberta	15432-114th Avenue Edmonton T5M 3S8	(780) 453-6693	(780) 452-6901

	Addresse	Telephone	Fax
British Columbia	2471 Simpson Road Richmond (Vancouver) V6X 2R2	(604) 270-8585	(604) 270-9154
California	14380 Industry Circle La Mirada, California 90638, U.S.A.	(714) 739-0720	(714) 739-0634
New Jersey	95 Mayhill Street Saddle Brook, New Jersey 07663, U.S.A.	(201) 587-9411	(201) 587-9606
▲ PLANTS			
◇ DOMCO	1001 Yamaska East Farnham, Québec J2N 1J7	(450) 293-3173	(450) 293-6644
◇ DOMCO	430 County Road 30 Florence Industrial Park Florence, Alabama 35630, U.S.A.	(256) 766-0235	(256) 718-5227
◇ DOMCO	1705 Oliver Street Houston, Texas 77007-3821, U.S.A.	(713) 869-5811	(713) 864-9158
HARRIS-TARKETT	2225 Eddie Williams Road Johnson City, Tennessee 37601, U.S.A.	(423) 928-3122	(423) 928-9445
	333 East Maple Street Johnson City, Tennessee 37601, U.S.A.		
INDIANA VENEER	890 W. Huntington Street Montpelier Industrial Park Montpelier, Indiana 47359, U.S.A.	(765) 728-2438	(765) 728-2439
SELMA	127 Selma Mill Loop Tillar, Arkansas 71670, U.S.A.	(870) 392-2293	(870) 392-2502
STUART	655 Dobyns Road Stuart, Virginia 24171, U.S.A.	(540) 694-4547	(540) 694-4953
TARKETT	P.O. Box 128, Route 94 1073 Route 94 Vails Gate, New York 12584, U.S.A.	(914) 563-4200	(914) 563-4254

[Corporate Information]

Annual meeting
The Annual Meeting of Shareholders will be held at 11:00 a.m. on May 30, 2000 at the Head Office of the Corporation, in Farnham, Quebec.

Transfer agent and registrar
General Trust of Canada, Montreal and Toronto

Stock Exchange Information
Domco Tarkett shares are traded on the Toronto stock exchange under the symbol DOC.

Auditors
Ernst & Young LLP

Internet Addresses
To visit our home pages or for more information about our products:
http://www.domco.com
http://www.harris-tarkett.com
http://www.tarkettna.com

A copy of the Annual Information Form will be available to the shareholders upon written request to the Secretary, at the Head Office in Farnham.

Si vous désirez recevoir ce rapport en français, veuillez adresser votre demande à la secrétaire, au siège social à Farnham.

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